W3	Learning Area	Entrepreneurship	Grade Level	11 and 12
	Quarter	4th	Date	Week 3

IV. LEARNING PHASES AND LEARNING ACTIVITIES

I. Introduction (Time Frame: 10 min.)

A **financial forecast** gives businesses access to cohesive reports, allowing finance departments to establish business goals that are both realistic and feasible. It also gives management valuable insights into the way the business had performed in the past and the way it will be in the future. Financial forecast aims evaluate current and future fiscal conditions to guide policy and programmatic decisions. It is also a fiscal management tool that presents estimated information based on past, current, and projected financial conditions.

D. Development (Time Frame: 50 min.)

A **financial forecast** is an estimate of future financial outcomes for a company or project, usually applied in budgeting, capital budgeting, and/or valuation.

Figure1. Financial Forecasting http://bit.ly/3vEa06b

Forecasting business revenue and expenses during the startup stage are more of an art than science (Advani, 2020). Most entrepreneurs complain because forecasting takes a lot of their time which they think could be of better use if spent in selling than planning. But more investors would be interested in financing your business venture if you could provide them with a thoughtfully prepared forecast, because they know that these forecasts will surely be of help in making your business a success by creating highly effective operational plans.

Simplified Financial Forecasting (Advani, 2020)

1. Start with expenses, not revenues.

Remember the following when forecasting:

(1) Make sure to double your estimates since advertising and marketing costs always go up.
(2) Expenses for legal matters such as licensing fees, permits, and insurances must be tripled in your forecast because they are unpredictable and most of them exceed expectations.
(3) Consider your service as a labor expense.

IV. LEARNING PHASES AND LEARNING ACTIVITIES

2. Forecast revenues using both conservative reality and aggressive dream.

3. Check the key ratios to make sure your projections are sound.

a. **Gross margin.** This refers to how much of the total revenue is the total direct cost during a period (i.e. quarterly, annual, or bi-annual).
Formula: $\text{Gross Margin} = \dfrac{\text{Total Revenue} - \text{Cost of Goods Sold}}{\text{Total Revenue}}$

b. **Operating profit margin**. This refers to how much of the total revenue is the total operating cost—direct cost, overhead, excluding financial costs—during a period i.e. quarterly, annual, or bi-annual).
Formula: $\text{Operating Profit Margin} = \dfrac{\text{Operating Profit}}{\text{Net Sales}} \text{ X100}$

c. **Total headcount per client**. You must divide the number of your employees by the number of expected clients. You should consider revisiting your forecast about revenue and payroll expense as your business grows.
Formula: $\text{Revenue per Employee Ratio} = \dfrac{\text{Net Sales}}{\text{No. of Employess}}$

Accurate projection on both revenue and cost will be challenging, especially in your pioneering years. It will be tiring and consuming but spending time to plan would prevent you from unwanted expenses along the way.

(Click the link for more information)
http://bit.ly/2OdpL33

Top 5 Forecasting Problems Your Business May Face

Financial planning is the cornerstone of every business's continued success. The process of allocating funds and determining how to best use those funds to achieve both short- and long-term business objectives is vital and powerful.

Even though there is a well-prepared financial planning, your business could encounter some problems like the following:

1. Organizational misalignment
2. Financial forecasting inefficiencies and lack of data credibility
3. Operational data issues
4. Cumbersome financial consolidation
5. Difficulty with translating foreign currency

(For further information about the topic above, click the link below)
LINK: http://bit.ly/3bG0VSi

Benefits of Financial Forecasting

Financial forecasting is really beneficial and will aid you and your business to:

- assess the success of your efforts to determine the long-term viability or value of an activity
- take control of your cash flow and purposefully direct your company
- develop benchmarks for use in future forecasts
- perform contingency planning during challenging financial times
- anticipate the impact of new expenses
- identify financial problem areas and their causes
- reduce financial risk
- create an environment of certainty and stability
- make future budgeting much easier

Components of Financial Forecasting

These elements feed into a financial forecast:

- Monthly financial statements
- Risks and opportunities on the horizon
- Actions you can take or are taking to minimize risks and capitalize on opportunities
- Resources available to bring the forecast to fruition
- Obstacles that can potentially arise and plans for overcoming them

(Click the link below for more information)
https://bit.ly/3rHzjld